Help! Is There a Merger Doctor in the House?

By Alice Ratcliffe

Somewhere in Corporate America, there are two CEOs. So far, they have nothing in common. But soon, they will share one thing: an intense, mutual dislike. Their companies are going to merge.

The call came on a hot summer day as Jim Ware waited in Chicago's O'Hare Airport for a flight. He took out his phone. The call was forwarded from his office in Long Grove, Illinois. It was the chief executive officer of a U.S. financial company. Somewhere in the wilds of America's corporate landscape, a merger had joined two asset managers. And now, the merger was coming unglued.

Ware, a mid-Westerner with a shock of sandy hair, held the phone to his ear, nodding, as he took out a yellow legal pad and started jotting down notes: "How much money do you manage?" he demanded of the CEO. "What's the ownership structure?"

Then, like any good doctor, he began to take a case history. When did the companies merge? How many assets did they manage? How many staff? What about the cultures of the two firms?

That last point is often the killer. After spending over two decades in the financial industry, and 8 years as a founder and principal of Focus Consulting Group, Inc., catering to financial companies, Ware knew when he saw a case of what he calls "fundamental ill-will." In this case, the tension arose because one company was run by an "autocrat." That irritated the other merger partner, run by people who thrived on collaboration. The staff at that second company wanted to be included in the decision-making. They couldn't understand why they weren't.

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Still on the phone, Ware outlined the next steps. He told the CEO that he needed to see an organizational chart of the merged companies. He'd keep the chart handy as he began to unravel what had gone so wrong that it had driven the company's CEO, in desperation, to make that first call. Ware also wanted to talk to top managers at the merged firms, one at a time. The interviews were important.

"We think everybody's view is distorted, because everybody sees things through their own lens," Ware says. As he began to speak to the executives in turn, 15 in all, Ware told each: "you have a choice. You can be effective, or you can be self-righteous. Pick one."

In many corporate conflicts, everyone tends to insist that they're not the problem. "That's what we get a lot of in these situations – a lot of self-righteousness," Ware says.

The desire to assign blame was destroying value, rather producing hoped-for synergies. The situation is still ongoing. The prognosis isn't good.

"There's very little optimism that these two cultures will work out their differences. There isn't a lot of flexibility on either side. There is a lot of conviction that the other party is wrong," Ware says.

In mergers involving "people-intensive" industries, including asset management and wealth management, "if you don't get the people fit right, there's a higher risk of failure," says Elizabeth Nesvold, at Cambridge

Illustration: Daniel Müller

International Partners Inc., a New York company specializing in advising on transactions in the financial industry. One out of two mergers "isn't as successful as anticipated," Nesvold says.

One third of Ware's time is spent trying to fix companies he describes as "sort of broken." The rest is spent working with successful companies. Brandes Investment Partners LP, a private investment company based in San Diego, is one such company. Set up by Charles Brandes in 1974, it is owned by senior professionals within the firm, and manages $117 billion.

Brandes may have succeeded partly because it has stuck to its roots. It invests according to value principles laid out by Benjamin Graham, whose disciples include billionaire investor Warren Buffett, and David Dodd. Graham and Dodd's book on securities analysis, first published in 1934, is still considered a classic today.

"With every portfolio we manage, our objective remains constant – to exploit the difference between a company's current intrinsic worth and the security's price in the market," says Brandes's mission statement. Its investment oversight committee aims for consensus – on almost all transactions – while upholding its disciplined approach to the value style.

Ware began his career under another successful investor, Gary Brinson, then at First Chicago. Ware describes Brinson as "very detail-oriented," and as someone who prefers planning and organization to encouraging individual stars. Brinson acquired full control of Brinson Partners, and later sold the company to Swiss Bank Corp. SBC merged with Union Bank to form UBS AG in 1998. Brinson now has his own firm.

Terence Toth, president of Northern Trust Global Investments, the Chicago-based group overseeing about $667 billion in assets, said Ware helped his company define five core values: teamwork, diversity, passion, appreciation and integrity. "The process helped us create a common language and culture," Toth says. That in turn helped it to speed decision-making, have more open discussions, and strengthen its overall business, he says.

Ariel Capital Management Inc., a Chicago-based money manager that oversees $16 billion invested in small- and mid-cap value stocks, is another success story. Set up by John Rogers, a former basketball player, it thrives on teamwork.

Ariel's President, Mellody Hobson, says her company talks to Jim Ware and partner, Jim Dethmer, "all the time." One area where she says Ware proved useful was in helping employees to recognize self-defeating behavior, including seeing themselves as "victim, villain or hero." People have learned at the company to accept responsibility, rather than to engage in "victim language," Hobson says.

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Kim Redding, founder and CEO of KG Redding & Associates, a Chicago company overseeing about $2.8 billion in global real estate securities, says Ware and his team of five have made a "valuable and tangible" difference to the firm. One area was the hiring process. Redding staff are instructed to drill down when they interview prospects.

Under Ware's tutelage, each executive involved in the process has become a specialist on specific skills. They have been taught to "just sit there" until a potential hire starts talking.

"The quickest way to ruin a really good operation is to hire someone who doesn't fit," Ware says. "Because, typically, that new person doesn't look around and say 'I don't fit here.' Instead, they start finding reasons why their new employer is all messed up."

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There is no single corporate culture that can guarantee success. One company may function like an artists' colony, where portfolio managers are allowed total freedom, as long as they are successful. Another company may be process-oriented and shun a star culture. One trait all successful companies share is the ability to let people do what they're hired to do: namely, work.

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This is not the case in troubled firms. It doesn't always have to be a merger. Personality clashes can disrupt business anywhere, any time. At a presentation with 50 chief investment officers, "the first question I asked was, do you have anyone on your team you wish would leave? Twenty-five people raised their hands," Ware recalls.

The CEO at one Milwaukee company called up Ware when a single portfolio manager managed to disrupt the whole operation. "We were hired to fix the broken culture, because this guy was clearly creating a culture of his own," Ware said. In the end, the man left, taking some other executives with him.

"Probably in half the engagements, somebody leaves," Ware says.

What about fear? Companies using fear as an incentive, a popular tool for executives who are insecure in their roles, may serve its purpose. "Machiavellian behavior does work," says Ware. "It just doesn't work for a long period of time, and it leaves a toxic residue."

And there are those firms that purport to aspire to greatness, but aren't truly committed. "The toughest thing to say to firms that have never had any 'alpha' (i.e.,value-added performance) is that if they've been mediocre for 10 years, they don't really want to be a top firm. Otherwise, they'd be a top firm," Ware says.

If you can't be a top company on your own, there's always the acquisition route. Announced corporate transactions, including mergers, last year amounted to $3.68 trillion, according to statistics published by Bloomberg. That figure inclues a total of 2,389 transactions involving financial companies. Somewhere, two top executives are shaking hands. Their companies are talking up the synergies, the benefits, the cost-savings, and the efficiencies that they will gain by merging. And, it's possible that before too long, Jim Ware's phone is going to ring.

Corporate Cultures:

The Autocrat:
"Men must be either pampered or crushed, because they can get revenge for small injuries, but not for grievous ones."
Niccolo Machiavelli, The Prince

Non-Consensus Leadership:
"We don't want a row; it's not our interest; we want to be peaceable; we are ready to work, but we won't be flogged."
"Turn to!" roared the Captain.
Herman Melville, Moby Dick

Friendly Rivals:
"They would not send each other Christmas gift greetings, but they would not murder each other."
Mario Puzo, The Godfather

The Cult:
"Then we have won back what we had before," said Boxer.
"That is our victory," said Squealer.
George Orwell, Animal Farm

Photo: Adrian Moser

Jim Ware, a beacon in the dark world of corporate mergers